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## IS CUBA YOUR NEXT HIGH GROWTH MARKET?

Since globalization began accelerating in the early 1990's, the U.S manufacturing and OEM community have aggressively cut costs by moving production to low-cost countries, from the Maquiladoras along the Mexican border to the factories of the Asian "Tiger" economies.

Fast forward to today where manufacturing costs even in low-cost countries have risen to the point where businesses have begun to look elsewhere for investment opportunities. While many analysts have predicted that India and

South Africa will be the "next big thing," we feel that an opportunity might be much closer to home in Cuba.

Marvin Cunningham, President of Long-Stanton Asia, spent two summers as a student in Cuba studying its relationships with South America and Africa. Also, he has operated our plant in China for six years draws the following comparison. "China offers a strong manufacturing workforce but wages start at \$120 per month and are rising at 15-20% a year, plus benefits. The total cost of a given employee has more than doubled since 2005. Cuba's economy has not seen this level of growth and wages have held steady at around \$20 a month for the average worker during the past decade."

China offers a great position for reaching Far Eastern markets and has easy access to the world's largest supply base. However, as a trading partner to the U.S. and Europe we see the peak in trade coming in the next few years. As part of our strategic planning we are always looking to where we can get the greatest return on our investment. And, Cuba is fast climbing this list.

In looking at Cuba for potential manufacturing opportunities we see many potential advantages becoming apparent as the political situation between the U.S. and Cuba improves. To begin with... location, location, location. Cuba is located 90 miles from Miami, and is blessed with a large number of natural harbors conducive to international trade. This is a huge advantage when compared with the 13-17 days it takes to ship from Shanghai to the U.S. West Coast, and the relatively small number of congested ports this trade must pass through. Additionally, Cuba has a very educated work force and limited language barriers. We foresee that pass-through assembly (either for export back to the U.S. or for export onto South America/Central America/Africa), and outsourcing of back office activities like billing, logistics, call centers, etc., as examples of industries that will offer high growth.

The liberalization of trade between the U.S. and Cuba will also benefit many U.S. industrial companies by way of lower prices for specialty steels and a new market for industrial goods. Cuba has 33% of the world's Nickel reserves (used in making Stainless Steel), as well as 26% of the world's Cobalt reserves (used in high-strength steel) and what appears to be, a tremendous amount of off-shore oil reserves. The ability to get these raw materials closer to home will decrease transportation costs, as well as, allow U.S. companies to diversify their supply base for these key resources. In addition, much of Cuba's infrastructure needs to be upgraded. This presents opportunities to U.S. companies for generators, road construction, fuel delivery systems, trucks, buses, waste water treatment systems, and the replacement/rebuilding of much of Cuba's housing stock.

New developments in Cuba could speed up the lifting of the trade barriers. The Cuban government is in the process of laying-off 500,000 workers with a projected 500,000 more to be idled in the next 5 years – this is out of a workforce of slightly over 5 million! The number of private businesses that need to be started to support the unemployed is staggering. When this is coupled with the U.S.'s most likely first step toward establishing normal relations; dropping the travel embargo, (we project 1 million tourists/visitors in the first 18 months), the prospect of double digit economic growth is not unrealistic.

Of course, the big question is; how will this happen? We think that as Cuba continues with its economic liberalization, one of the first steps will be the opening of free trade zones (first, in Havana) similar to what China did with Shenzhen in 1979. This will likely be followed by policies that will allow foreign businesses to have ownership (through joint ventures at first, followed by 100% after several years). Whether or not U.S. businesses will be able to take advantage of these policies is a political question not easily answered. However with the Castro brothers being 84 and 79 years of age respectively, it is not a stretch to see relations between the U.S. and Cuba being fully reestablished by 2016. Is your company prepared to take advantage of this? It's something to think about.



Could Cuba be the gateway to Markets in South America, Central America and Africa?

*If you would like to discuss these or other opportunities, please contact any of our management team: Dan Cunningham at [Danc@longstanton.com](mailto:Danc@longstanton.com); Marvin Cunningham at [Marvinc@longstanton.com](mailto:Marvinc@longstanton.com) or Tom Kachovec at [Tomk@longstanton.com](mailto:Tomk@longstanton.com).*